Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AARP

December 31, 2018 and 2017

AARP

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
AARP, Inc.:

We have audited the accompanying consolidated financial statements of AARP, Inc. and affiliates (collectively, "AARP"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to AARP's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AARP's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AARP, Inc. and affiliates as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Washington, D.C.
March 20, 2019

AARP
Consolidated Statements of Financial Position
As of December 31, 2018 and 2017
(in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents (Note 2)	$ 364,835	$ 460,985
Accounts receivable, net (Notes 2 and 8)	103,820	102,636
Prepaid expenses and other assets (Note 11)	47,541	47,562
Investments (Notes 2 and 7)	3,302,094	3,340,676
Property and equipment, net (Notes 2 and 9)	381,693	332,285
Total assets	$ 4,199,983	$ 4,284,144
LIABILITIES		
Accounts payable and accrued expenses	$ 196,597	$ 195,421
Insurance premiums payable (Notes 6 and 7)	1,214,960	1,183,291
Deferred revenue and other liabilities (Notes 2 and 3)	14,702	18,979
Deferred membership dues (Note 3)	544,915	540,910
Accrued pension liability (Note 12)	249,922	252,702
Accrued postretirement health benefits (Note 13)	169,363	174,975
Notes payable (Note 10)	199,316	199,283
Total liabilities	2,589,775	2,565,561
Commitments and contingencies (Note 17)		
NET ASSETS		
Without donor restrictions:		
Undesignated (Note 2)	1,088,014	1,266,416
Board designated (Notes 2 and 16)	518,377	449,212
Total net assets without donor restrictions	1,606,391	1,715,628
With donor restrictions (Note 2)	3,817	2,955
Total net assets	1,610,208	1,718,583
Total liabilities and net assets	$ 4,199,983	$ 4,284,144

The accompanying notes are an integral part of these consolidated financial statements.

AARP
Consolidated Statement of Activities
For the year ended December 31, 2018
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Membership dues (Note 3)	$ 299,865	$ -	$ 299,865
Royalties (Notes 3 and 6)	938,892	-	938,892
Publications advertising (Note 3)	141,434	-	141,434
Grant revenue (Note 3)	95,983	-	95,983
Program income (Note 3)	65,141	-	65,141
Contributions (Note 3)	99,953	3,517	103,470
Other	4,872	-	4,872
Net assets released from restrictions	2,655	(2,655)	-
Total operating revenues	1,648,795	862	1,649,657
OPERATING EXPENSES (Note 5)			
Program services:			
Community engagement and outreach	488,555	-	488,555
Publications and communications	360,353	-	360,353
Membership engagement	244,787	-	244,787
Training and education programs	115,690	-	115,690
Total program services	1,209,385	-	1,209,385
Supporting services:			
Membership development	204,789	-	204,789
Management and general	245,165	-	245,165
Total supporting services	449,954	-	449,954
Total operating expenses	1,659,339	-	1,659,339
Change in net assets from operating activities	(10,544)	862	(9,682)
NON-OPERATING ACTIVITY			
Investment loss (Notes 2, 6 and 7)	(107,230)	-	(107,230)
Income taxes (Notes 2 and 11)	(1,090)	-	(1,090)
Other components of net periodic benefit cost (Notes 12 and 13)	(22,016)	-	(22,016)
Pension and postretirement activity other than net periodic benefit cost (Notes 12 and 13)	31,643	-	31,643
Change in net assets	(109,237)	862	(108,375)
Net assets, beginning of year	1,715,628	2,955	1,718,583
Net assets, end of year	$ 1,606,391	$ 3,817	$ 1,610,208

The accompanying notes are an integral part of this consolidated financial statement.

AARP
Consolidated Statement of Activities
For the year ended December 31, 2017
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Membership dues (Note 3)	$ 301,017	$ -	$ 301,017
Royalties (Notes 3 and 6)	908,960	-	908,960
Publications advertising (Note 3)	147,687	-	147,687
Grant revenue (Note 3)	99,745	-	99,745
Program income (Note 3)	62,784	-	62,784
Contributions (Note 3)	116,972	2,669	119,641
Other	4,007	-	4,007
Net assets released from restrictions	2,180	(2,180)	-
Total operating revenues	1,643,352	489	1,643,841
OPERATING EXPENSES (Note 5)			
Program services:			
Community engagement and outreach	464,004	-	464,004
Publications and communications	351,518	-	351,518
Membership engagement	243,221	-	243,221
Training and education programs	127,443	-	127,443
Total program services	1,186,186	-	1,186,186
Supporting services:			
Membership development	203,265	-	203,265
Management and general	238,403	-	238,403
Total supporting services	441,668	-	441,668
Total operating expenses	1,627,854	-	1,627,854
Change in net assets from operating activities	15,498	489	15,987
NON-OPERATING ACTIVITY			
Investment gain (Notes 2, 6 and 7)	346,226	-	346,226
Income taxes (Notes 2 and 11)	(15,898)	-	(15,898)
Other components of net periodic benefit cost (Notes 12 and 13)	(15,101)	-	(15,101)
Pension and postretirement activity other than net periodic benefit cost (Notes 12 and 13)	(51,965)	-	(51,965)
Change in net assets	278,760	489	279,249
Net assets, beginning of year	1,436,868	2,466	1,439,334
Net assets, end of year	$ 1,715,628	$ 2,955	$ 1,718,583

The accompanying notes are an integral part of this consolidated financial statement.

AARP
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (108,375)	$ 279,249
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,963	56,561
Change in allowance for uncollectible accounts	598	55
Changes other than net periodic benefit cost	(31,643)	51,965
Net realized and unrealized loss (gain) on investments	142,148	(309,467)
Deferred income taxes	777	6,054
Changes in operating assets and liabilities:		
Accounts receivable	(1,782)	94
Prepaid expenses and other assets	(826)	3,137
Accounts payable and accrued expenses	1,176	8,170
Insurance premiums payable	31,669	52,862
Deferred revenue and other liabilities	(4,277)	1,437
Deferred membership dues	4,005	5,047
Accrued pension liability	9,349	10,200
Accrued postretirement health benefits	13,902	5,603
Net cash provided by operating activities	114,684	170,967
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(107,268)	(79,416)
Proceeds from sale and maturities of investments	4,635,600	3,000,877
Purchases of investments	(4,739,166)	(3,059,352)
Net cash used in investing activities	(210,834)	(137,891)
Net (decrease) increase in cash and cash equivalents	(96,150)	33,076
Cash and cash equivalents, beginning of year	460,985	427,909
Cash and cash equivalents, end of year	$ 364,835	$ 460,985
Supplemental disclosures:		
Cash paid for interest	$ 10,643	$ 10,073
Cash paid for income taxes	$ 4,455	$ 7,474

The accompanying notes are an integral part of these consolidated financial statements.

1. DESCRIPTION OF ORGANIZATIONS AND ACTIVITIES

AARP, Inc.

AARP, Inc. was organized in 1958 as a District of Columbia not-for-profit corporation for the purpose of promoting the interests of older persons. AARP, Inc. is qualified as a tax-exempt social welfare organization under Section 501(c)(4) of the Internal Revenue Code ("IRC"). The vision of AARP, Inc. is a society in which all people live with dignity and purpose, and fulfill their goals and dreams; AARP, Inc.'s purpose is to empower people to choose how they live as they age.

The programs and activities of AARP, Inc. and its affiliates include education, advocacy, research, service programs, other social welfare activities, and charitable programs serving the needs of older persons.

AARP, Inc.'s programs, activities and operations are managed and supported primarily from its National Headquarters in Washington, D.C. AARP, Inc. and its affiliates also have offices in all fifty U.S. states, Washington, D.C., Puerto Rico and the U.S. Virgin Islands, as well as a membership processing center located in Lakewood, California.

AARP Services, Inc.

AARP Services, Inc. ("AARP Services") is a wholly owned taxable subsidiary of AARP, Inc. and was incorporated in Delaware in 1998. AARP Services' Board of Directors is composed of members appointed by AARP, Inc.'s Board of Directors.

Pursuant to an agreement with AARP, Inc., AARP Services is responsible for providing quality control services designed to ensure licensees of AARP's intellectual property are using such property appropriately. AARP Services also provides membership development, new product development, institutional relationship services, media sales services and other services designed to support AARP's efforts to select, improve and expand member benefits and services made available to AARP, Inc. members, and to improve the lives of the 50+ population. AARP Services receives fees from AARP, Inc. for performing these services. As part of the aforementioned agreement, AARP, Inc. granted to AARP Services a no fee license to use the AARP trademarks and service marks, to be used for specific, limited purposes under stringent terms and conditions. AARP Services also receives third-party consulting fees for marketing development and other services.

AARP Insurance Plan

The AARP Insurance Plan (the "Plan"), also referred to as the AARP Health Trust, is a grantor trust established in 1958 by an Agreement and Declaration of Trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members or for the general benefit, good and welfare of AARP, Inc. Insurance premiums collected by the Plan are paid directly by participants. At the direction of the third-party insurance carriers, certain agreed upon payments are made for royalties payable to AARP, Inc. The Plan is administered by a Board of Trustees appointed by the Board of Directors of AARP, Inc.

AARP Foundation and AARP Institute

AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. AARP Foundation is dedicated to serving vulnerable people 50+ by creating solutions that help them secure the essentials - food, housing, income and personal connection - and achieve their best life. AARP Foundation is a qualified nonprofit organization under Section 501(c)(3) of the IRC and is therefore exempt from federal income taxes on its charitable operations. In addition, AARP Foundation is a public charity as defined in Section 509(a)(1) of the IRC. AARP Foundation receives funding principally from the federal government, AARP, Inc., foundations, corporations and individuals. AARP Foundation's Board of Directors is composed of members appointed by AARP, Inc.'s Board of Directors.

AARP Institute (the "Institute"), an affiliate of AARP Foundation, was organized in 1963 as a District of Columbia not-for-profit corporation. The Institute qualified as a tax-exempt organization under Section 501(c)(3) of the IRC.

AARP Foundation and the Institute are collectively referred to as the "Foundation."

Legal Counsel for the Elderly

Legal Counsel for the Elderly ("LCE") was incorporated in the District of Columbia in 1980 for the purpose of providing free legal assistance and education to the elderly, primarily in the District of Columbia. LCE publishes manuals, conducts seminars on issues affecting the elderly, and operates legal services and long-term care ombudsman programs. LCE qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the IRC. Funding for LCE is obtained primarily through contributions from AARP, Inc., government grants, foundations, corporations and individuals. LCE's Board of Directors is comprised of seven members appointed by AARP, Inc.'s Chief Executive Officer.

Other Affiliates

AARP Andrus Insurance Fund LLC, a single-member LLC with AARP, Inc. as its sole member, was formed in 2007 to serve as a self-funding mechanism for the deductible portion of certain AARP, Inc. and affiliates' insurance coverage with third-party insurance carriers. In addition, various special purpose taxable affiliated entities own and operate the AARP, Inc. headquarters building located in Washington, D.C., the related parking garage facilities and a building in California. These properties are primarily occupied by AARP, Inc. and its affiliates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of the entities listed in Note 1, collectively referred to as "AARP."

All significant intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements do not include the operations and accounts of nearly 1,000 local chapters of AARP that are organized and operated as separate entities. AARP neither controls nor derives beneficial economic interest from these organizations, as defined by U.S. generally accepted accounting principles.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes - "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature either in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

Net Assets Without Donor Restriction

Represent net assets which are not subject to donor-imposed stipulations and are fully available to be utilized in any of AARP's programs or supporting services. Net assets without donor restrictions include amounts designated for specific purposes by AARP's Board of Directors (Note 16).

Net Assets With Donor Restriction

Represent net assets which are subject to donor-imposed stipulations whose use is restricted by time and/or purpose. A portion of AARP's net assets with donor restrictions require AARP to use or expend the gifts as specified, based on purpose or passage of time.

Measure of Operations

AARP reports as part of operations all activities except for any required provision for federal and state income taxes, investment activity, other components of net periodic pension and postretirement benefit cost, pension and postretirement related changes other than net periodic benefit cost, and other items, if any, which are unusual or nonrecurring in nature.

Cash and Cash Equivalents

Cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase. As of December 31, 2018 and 2017, $295,736,000 and $309,376,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

Concentrations of Credit Risk

Financial instruments that potentially subject AARP to concentrations of credit risk consist principally of cash and cash equivalents and investments in U.S. treasury securities, fixed income funds, equity funds and similar interests. AARP maintains its cash and cash equivalents in various bank accounts and money market funds that, at times, may exceed federally insured limits. AARP's cash and cash equivalent accounts have been placed with high credit quality financial institutions. AARP has not experienced, nor does it anticipate, any losses with respect to such accounts.

Accounts Receivable, net

AARP estimates uncollectible amounts based on the aging of outstanding accounts receivable and management's estimate of their net realizable values. Accounts are written-off when deemed uncollectible.

Investments

Investments are reported at fair value. Changes in fair value are reported as investment income/loss in the accompanying consolidated statements of activities.

The fair value of debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges. The fair value of non-U.S. Treasury debt securities is determined by a nationally recognized independent pricing service (pricing service).

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

Hedge funds, private equity funds and private real estate funds are carried at net asset values as provided by the investment managers as of the reporting date. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. In 2018 and 2017, these estimated fair values represented approximately 29% and 19%, respectively, of total investments.

All investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). AARP groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data and, therefore, require other pricing assumptions or methodologies in the determination of fair value.

At December 31, 2018 and 2017, the carrying value of financial instruments such as cash equivalents, accounts receivable, accounts payable and variable rate debt approximates their fair value, based on the short-term maturities or floating interest rates of these instruments.

AARP's interests in alternative investment funds such as institutional mutual funds, private equity, real estate and hedge funds are generally reported at the net asset value ("NAV") per share by the fund managers. This NAV is used as a practical expedient to estimate the fair value of such investments. These funds, which use NAV as a practical expedient to estimate fair value, are not classified in the fair value hierarchy.

Property and Equipment, net

Property and equipment are stated at cost. Computer software is composed of external and certain qualifying internal costs related to software development. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to thirty years. Maintenance and repair costs are expensed as incurred.

Fundraising Expenses

Fundraising expenses, which are reported as part of management and general expenses within the accompanying consolidated statements of activities, totaled $31,245,000 and $32,812,000 for the years ended December 31, 2018 and 2017, respectively.

Volunteer Services

AARP and its members benefit from the efforts of many volunteers. These in-kind contributions by volunteers are not recorded as revenue in the accompanying consolidated financial statements because they do not meet the requirements for recognition under U.S. generally accepted accounting principles.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in other income (expenses) in the period that includes the enactment date.

AARP does not believe that there are any unrecognized tax benefits/liabilities that should be recorded.

AARP follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

AARP is exempt from income tax under IRC section 501(c)(4), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. AARP has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. AARP has determined that there are no material uncertain tax positions that require recognition or disclosure in the accompanying consolidated financial statements.

Advertising Expenses

AARP expenses advertising costs as incurred except to the extent of any direct response marketing costs that qualify for capitalization. These costs include brand awareness, member acquisition and retention, member program marketing, and advocacy advertising. For the years ended December 31, 2018 and 2017, advertising expense totaled approximately $314,189,000 and $313,846,000, respectively, and no costs were capitalized.

Revenue Recognition

AARP adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), on January 1, 2018. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

a. Step 1: Identify the contract(s) with a customer.
b. Step 2: Identify the performance obligations in the contract.
c. Step 3: Determine the transaction price.
d. Step 4: Allocate the transaction price to the performance obligations in the contract.
e. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

AARP recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration AARP expects to be entitled to in exchange for those goods or services. ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. AARP has identified membership dues, royalties, publication advertising, and program income as revenue categories subject to the adoption of ASC 606.

The results of applying ASC 606 using the modified retrospective approach did not have a material impact on the consolidated financial position, changes in net assets, cash flows, business processes, controls or systems of AARP.

Net Periodic Benefit Cost

AARP adopted ASU No. 2017-07 - Compensation - Retirement Benefits (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, on January 1, 2018. This guidance requires the service cost component of retiree benefit plans to be presented as a part of employee benefit expense. The other components of the net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as a nonoperating change in net assets without restrictions. These changes have been applied retrospectively in the 2017 consolidated statement of activities.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain information in the fiscal 2017 consolidated financial statements has been reclassified to conform to the fiscal 2018 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2017 consolidated financial statements.

3. REVENUE RECOGNITION

Membership Dues

AARP offers membership for terms of one, two, three, five years or longer. AARP satisfies its performance obligation and recognizes revenue evenly over the membership term as its members simultaneously receive and consume the benefits over that timeframe. Generally, membership doesn’t commence until after AARP receives payment.

Disaggregated membership dues revenue, follows (in thousands):

	2018	2017
Membership dues (by term):		
One year	$ 127,493	$ 128,302
Two and three years	82,538	84,531
Five years and greater	89,834	88,184
	$ 299,865	$ 301,017

Payments received for membership dues in advance of AARP satisfying its performance obligation are recorded within deferred membership dues in the accompanying consolidated statements of financial position. The changes in deferred memberships dues were caused by normal timing differences between the satisfaction of performance obligations and customer payments.

For the year ended December 31, 2018, AARP recognized revenue of $245,175,000 from amounts that were included in deferred membership dues at the beginning of the year.

At December 31, 2018, deferred membership dues totaled $544,915,000. Of that amount, 45%, 85% and 97%, respectively, of the performance obligation surrounding this liability is expected to be satisfied within 1, 3 and 5 years, respectively, and the remaining thereafter.

Royalties

Royalties are received from AARP branded third-party providers of member benefit programs, in return for the rights to use AARP's intellectual property (including name, logo and membership information) in offering programs. For royalty agreements which include fixed fee consideration, revenue is recognized ratably over the term of the agreement. For royalty agreements which include variable consideration, revenue is recognized when the member purchases a good or service from an AARP-branded third-party provider.

Disaggregated royalty revenue, follows (in thousands):

	2018	2017
Royalty revenue (by product):		
Health products and services	$ 680,349	$ 649,198
Financial products and services	237,488	240,643
Lifestyle products and services	21,055	19,119
	$ 938,892	$ 908,960

Payments received for royalty agreements in advance of AARP satisfying its performance obligation are recorded within deferred revenue and other liabilities in the accompanying consolidated statements of financial position and recognized as revenue in future periods as performance obligations are satisfied. The changes in deferred revenue were caused by normal timing differences between the satisfaction of performance obligations and customer payments.

Royalties included within deferred revenue and other liabilities totaled approximately $6,250,000 at December 31, 2018. AARP recognized approximately $8,333,000 in royalty revenue during 2018 from amounts that were included in deferred revenue and other liabilities at December 31, 2017.

For royalty agreements, which include variable consideration, management has elected the practical expedient permitted under ASC 606 not to disclose information about remaining performance obligations.

Publications Advertising

AARP sells advertising space in its major publications, which are provided to members without additional charge as part of their membership benefits. Advertising revenue is recognized in the month of each publication's issue date. AARP also sells advertising space on its website and in other e-channels. Digital advertising revenue is recognized over the term of the advertisement campaign period.

Disaggregated publications revenue, follows (in thousands):

	2018	2017
Publications advertising (by type):		
Print media	$ 109,704	$ 117,817
Digital media	31,730	29,870
	$ 141,434	$ 147,687

Management has elected the practical expedient permitted under ASC 606 not to disclose information about remaining performance obligations as these contracts have original terms that are one year or less.

Grant Revenue

The Foundation and LCE report activities under grant agreements based on their respective terms. Accordingly, grant-related revenue is recognized to the extent that allowable expenses are incurred under program agreements. Amounts reported as accounts receivable in the accompanying consolidated statements of financial positon represent grant program expenses incurred in advance of the receipt of funds. There is no allowance for grants as collection is reasonably assured based on historical experience. Funds received in advance of incurred grant program expenses are reported as deferred revenue and other liabilities in the accompanying consolidated statements of financial position. Federal funds are only received by the Foundation and LCE.

The Foundation and LCE administer grants received from federal agencies and private organizations. The following describes the two largest grant programs:

Senior Community Service Employment Program ("SCSEP")

The SCSEP program provides subsidized assignments and job training for persons 55 and older whose income is at or below 125% of the federal poverty level. The SCSEP program is primarily funded by the U.S. Department of Labor ("DOL"). The current DOL commitment expires in June 2019. Management expects that this funding will be renewed.

Tax Counseling for the Elderly (Tax-Aide)

Tax-Aide provides volunteer assistance for federal and state income tax preparation assistance to low and moderate income persons throughout the country, with special attention to those 60 and older. The Tax-Aide program is primarily funded by AARP, Inc. and the Internal Revenue Service ("IRS"). The current IRS commitment expires in September 2019. Management expects that this funding will be renewed.

The continuation of all grant programs beyond expiration of the current agreements is subject to future commitment of funds by sponsoring agencies (Note 17).

Program Income

Program income is comprised mainly of fees from providers for consulting services as well as fees from members and non-members for driver safety classes.

Payment for consulting services is usually due within 30 days of performance or invoicing. Under consulting services contracts, revenue is typically recognized at the point in time when goods or services are transferred to the customer. For contracts relating to AARP's marketing cooperatives, AARP provides a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The series is accounted for as a single performance obligation satisfied over time, and accordingly, revenue is recognized over the contract term using a measure of progress input.

Program revenue for the driver safety program, which is held either in a classroom setting or on-line, is recognized when the instruction is provided.

Disaggregated program income, follows (in thousands):

	2018	2017
Program income (by type):		
Consulting services	$ 56,844	$ 54,159
Driver safety	8,297	8,625
	$ 65,141	$ 62,784

Management has elected the practical expedient permitted under ASC 606 not to disclose information about remaining performance obligations surrounding program income as the contracts either have original terms that are one year or less or variable consideration allocated entirely to a wholly unsatisfied promise to transfer a distinct good or service that is part of a series.

Contributions

AARP reports contributions as revenue when received or pledged by the donor. Contributions are reported as net assets with donor restrictions if such gifts are restricted by the donor to a specific program, and/or include an explicit or implied time restriction.

Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from donor restrictions. Gifts whose donor-stipulated purposes are met in the same year as received are reported as net assets without donor restrictions.

Contributions include cash received in support of both charitable and advocacy program activities. Charitable contributions are only received by the Foundation and LCE, while advocacy contributions are received by AARP, Inc. Contributions also include in-kind contributed professional services with a fair value totaling approximately $20,851,000 and $24,099,000 for the years ended December 31, 2018 and 2017, respectively.

4. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and capital construction costs not financed with debt, were as follows (in thousands):

Financial assets:	
Cash and cash equivalents	$ 364,835
Accounts receivable, net	103,820
Investments:	
Level 1	826,829
Level 2	489,625
Institutional mutual funds	893,468
Less: Board designated fund	(518,377)
Less: Net assets with donor restrictions	(3,817)
Total financial assets available within one year	2,156,383
Liquidity resources:	
Revolving credit facility	50,000
Total financial assets and liquidity resources available within one year	$ 2,206,383

AARP's cash flows are not subject to significant seasonal variations. Cash is received and disbursed consistently throughout the year.

5. NATURAL CLASSIFICATION OF EXPENSES

Expenses attributable to more than one program or supporting service are allocated using various cost allocation techniques such as headcount, square footage or time.

Expenses by natural classification for the year ended December 31, 2018 consisted of the following:

	Community Engagement and Outreach	Publications and Communications	Membership Engagement	Training and Education Programs	Membership Development	Management and General	Total
Compensation and Benefits	$ 180,552	$ 40,599	$ 84,481	$ 16,567	$ 6,700	$ 101,632	$ 430,531
Professional Services and Research	74,015	35,417	56,991	3,300	2,309	19,896	191,928
Advertising and Marketing	63,316	125,463	27,809	2,665	85,095	9,841	314,189
Technology	38,077	19,856	32,597	7,208	2,378	25,087	125,203
Printing and Postage	23,515	116,000	26,454	3,043	103,960	17,698	290,670
Grants, Donations, and Volunteer	42,474	-	-	76,619	-	-	119,093
Occupancy and Office Expense	37,384	18,947	11,964	4,305	3,979	48,576	125,155
Other	29,222	4,071	4,491	1,983	368	22,435	62,570
	$ 488,555	$ 360,353	$ 244,787	$ 115,690	$ 204,789	$ 245,165	$ 1,659,339

Expenses by natural classification for the year ended December 31, 2017, consisted of the following:

	Community Engagement and Outreach	Publications and Communications	Membership Engagement	Training and Education Programs	Membership Development	Management and General	Total
Compensation and Benefits	$ 168,384	$ 39,574	$ 81,052	$ 17,322	$ 6,623	$ 99,901	$ 412,856
Professional Services and Research	54,246	27,884	63,401	5,107	2,739	22,727	176,104
Advertising and Marketing	68,258	122,759	29,844	2,432	80,617	9,936	313,846
Technology	40,088	22,670	31,802	8,458	2,256	23,508	128,782
Printing and Postage	25,468	117,706	19,307	2,778	107,458	17,651	290,368
Grants, Donations, and Volunteer	43,422	-	-	84,304	-	-	127,726
Occupancy and Office Expense	36,818	17,177	12,433	4,927	3,242	43,662	118,259
Other	27,320	3,748	5,382	2,115	330	21,018	59,913
	$ 464,004	$ 351,518	$ 243,221	$ 127,443	$ 203,265	$ 238,403	$ 1,627,854

6. GRANTOR TRUST

AARP established a grantor trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members or for the general benefit, good and welfare of AARP. Agreements between AARP, Inc., AARP Services, United Healthcare Corporation (“United”), Metropolitan Life Insurance Company (“MetLife”), Genworth Life Insurance Company (“Genworth”), and Aetna Life Insurance Company (“Aetna”) make certain types of insurance available to AARP, Inc. members.

The Plan, a grantor trust, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreements referred to above, collections are remitted to third-party insurance carriers within contractually specified periods of time, net of the contractual royalty payments that are due to AARP, Inc., which are reported as royalties in the accompanying consolidated statements of activities. AARP derived 59% and 57% of total royalties from the Plan for the years ended December 31, 2018 and 2017, respectively. Billing of insurance premiums and issuance of certificates of insurance to insured members are the responsibility of the third-party insurance carrier. The collection of premiums and submission of amounts due to the insurance carrier are classified as agency transactions and, as such, are not recorded as either revenue or expenses in the accompanying consolidated statements of activities. For the years ended December 31, 2018 and 2017, the Plan processed $11.4 billion and $10.7 billion, respectively, of premium payments from member participants.

Premiums collected from insured members are subsequently remitted to the third-party insurance carriers, and are recorded as an offsetting liability, insurance premiums payable, in the accompanying consolidated statements of financial position. For the years ended December 31, 2018 and 2017, the Plan invested certain funds that generated net investment losses of $20,688,000 and income of $78,742,000, respectively, which are included in investment (loss) gain in the accompanying consolidated statements of activities.

At December 31, 2018 and 2017, insurance premiums payable (in thousands) were comprised of the following:

	2018	2017
Premiums payable to the insurance underwriters	$ 926,533	$ 883,648
Payments received in advance	252,309	264,301
Unprocessed and partial payments	36,118	35,342
Total insurance premiums payable	$ 1,214,960	$ 1,183,291

7. INVESTMENTS

Investments as of December 31, 2018, summarized by their classification in the fair value hierarchy or NAV, follow (in thousands):

	Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
Global and international	$ 421,056	$ 252,311	$ -	$ 168,745
U.S. small cap	60,410	60,410	-	-
Emerging markets	77,051	72,104	-	4,947
U.S. large-mid cap	458,334	140,050	-	318,284
Fixed income securities and funds:				
U.S. corporate and investment grade	213,927	89,625	124,302	-
Global and international	255,156	163	45,176	209,817
U.S. government and treasury securities	202,726	202,726	-	-
Mortgage and asset-backed	313,026	-	313,026	-
International government	4,762	-	4,762	-
Short-term	409	409	-	-
U.S. fixed income	73,072	9,031	-	64,041
High-yield	127,634	-	-	127,634
Municipal	2,359	-	2,359	-
Real assets and commodity funds:				
Commingled real asset funds	125,454	-	-	125,454
Commingled real estate funds - U.S.	371,638	-	-	371,638
Private real estate funds - U.S.	29,286	-	-	29,286
Hedge funds:				
Multi-strategy	130,813	-	-	130,813
Global macro	86,912	-	-	86,912
Equity long/short	71,879	-	-	71,879
Equity market neutral	29,592	-	-	29,592
Event driven/credit	82,657	-	-	82,657
Private equity funds:				
Private equity funds - U.S.	93,913	-	-	93,913
Private equity funds - Global	47,762	-	-	47,762
Total	3,279,828	$ 826,829	$ 489,625	$ 1,963,374
Cash and cash equivalents held for investment	22,266			
Total investments	$ 3,302,094			

Investments as of December 31, 2017, summarized by their classification in the fair value hierarchy or NAV, follow (in thousands):

	Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
Global and international	$ 511,273	$ 310,881	$ -	$ 200,392
U.S. small cap	88,876	62,969	-	25,907
Emerging markets	133,695	87,878	-	45,817
U.S. large-mid cap	544,295	169,772	-	374,523
Fixed income securities and funds:				
U.S. corporate and investment grade	328,399	119,655	208,744	-
Global and international	180,542	172	82,531	97,839
U.S. government and treasury securities	6,123	6,123	-	-
Mortgage and asset-backed	124,423	-	124,423	-
International government	5,625	-	5,625	-
Short-term	462	462	-	-
U.S. fixed income	445,556	12,443	-	433,113
High-yield	148,492	1,856	-	146,636
Municipal	2,388	-	2,388	-
Real assets and commodity funds:				
Commingled real asset funds	130,299	-	-	130,299
Commingled real estate funds - U.S.	155,838	-	-	155,838
Private real estate funds - U.S.	21,386	-	-	21,386
Hedge funds:				
Multi-strategy	128,521	-	-	128,521
Global macro	80,833	-	-	80,833
Equity long/short	76,923	-	-	76,923
Equity market neutral	30,828	-	-	30,828
Event driven/credit	62,322	-	-	62,322
Private equity funds:				
Private equity funds - U.S.	48,607	-	-	48,607
Private equity funds - Global	15,116	-	-	15,116
Total	3,270,822	$ 772,211	$ 423,711	$ 2,074,900
Cash and cash equivalents held for investment	69,854			
Total investments	$ 3,340,676			

Fixed income securities, other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates of such fixed income securities are based on observable market information rather than market quotes as of the measurement date. Accordingly, the estimates of fair value for such fixed income securities, as provided by the pricing service, are included in Level 2 of the hierarchy. The values of U.S. Treasury securities are included in Level 1 of the hierarchy, based on unadjusted market prices as of the measurement date.

AARP’s equity securities trade on a major exchange. Accordingly, such equity securities are included in Level 1 of the hierarchy.

Information with respect to redemption terms, strategies, risks and funding commitments for investments based on NAV, follows (in thousands):

	2018 Fair Value	Unfunded Commitments	2017 Fair Value	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Institutional mutual funds:						
U.S. large-mid cap equity [a]	$ 318,284	n/a	$ 374,523	daily	none or 2 days	n/a
U.S. small-cap equity [b]	-	n/a	25,907	daily	2 days	n/a
Emerging markets equity [c]	4,947	n/a	45,817	semi-monthly	2 days	n/a
Global and international equity [d]	168,745	n/a	200,392	3 times per month	2 days	n/a
Global and international fixed income [e]	209,817	n/a	97,839	daily, monthly	none or 30 days	n/a
U.S. fixed income [f]	64,041	n/a	433,113	daily	none	n/a
High-yield [g]	127,634	n/a	146,636	monthly	10 days or 45 days	n/a
Hedge funds:						
Multi-strategy [h]	130,813	n/a	128,521	semi-monthly, monthly, quarterly, bi-annually, annually	45 - 90 days	Lock-up provisions range from 2 to 3 years
Global macro [i]	86,912	n/a	80,833	monthly	2 - 90 days	Lock-up provisions range from none to 1 year
Equity long/short [j]	71,879	n/a	76,923	monthly, quarterly	30 days	Lock-up provisions range from none to 1 year
Equity market neutral [k]	29,592	n/a	30,828	monthly	90 days	None
Event driven/credit [l]	82,657	$ 9,051	62,322	quarterly	60 days	None or no redemption rights
Real assets and commodity funds:						
Commingled real asset funds [m]	125,454	n/a	130,299	daily	2 days	n/a
Commingled real estate funds - U.S. [n]	371,638	14,175	155,838	quarterly	45 - 90 days	n/a
Private real estate funds - U.S. [o]	29,286	69,764	21,386	n/a	n/a	n/a
Private equity funds:						
Private equity funds - U.S. [p]	93,913	119,266	48,607	n/a	n/a	n/a
Private equity funds - Global [q]	47,762	92,290	15,116	n/a	n/a	n/a
	$ 1,963,374	$ 304,546	$ 2,074,900			

[a] This category is comprised of two institutional mutual funds. These funds employ a passive investment strategy seeking to replicate the performance of a large-mid cap benchmark.

[b] During 2017, this category included an investment in one institutional mutual fund. This fund employed a passive investment strategy seeking to replicate the performance of a small-cap benchmark.

[c] This category is invested in one institutional mutual fund. This fund employs a passive investment strategy seeking to replicate the performance of an emerging market benchmark.

[d] This category is comprised of three institutional mutual funds. These funds employ a passive investment strategy seeking to replicate the performance of a global developed market index.

(e) This category is comprised of two institutional mutual funds. One fund seeks to replicate the performance of a global, developed market index. Another institutional fund employs an active investment approach as it seeks to outperform the same index as the aforementioned fund.

(f) This category is managed by one fund manager, which employs four different passive funds in an effort to replicate the performance of a well-known fixed income index.

(g) This category is managed by two fund managers that invest in high-yield bonds.

(h) This class includes investments in several hedge funds that use multiple strategies to obtain absolute returns and long-term capital appreciation. The investment strategies include, but are not limited to, relative value, event driven, risk or merger arbitrage, long/short equity, convertible/derivative arbitrage, capital structure arbitrage and credit and structured credit opportunities. The funds invest in equity securities, debt securities, derivatives, and other financial instruments.

(i) This class includes investments in hedge funds that use directional strategies, such as long/short strategies. These funds use leverage and include global investments in a wide range of instruments including, but not limited to, equity, debt and derivatives to achieve long-term capital appreciation.

(j) This class includes hedge funds that invest in equity securities that use long/short strategies. These funds invest in securities of both U.S. and foreign issuers and invest in a wide range of instruments including, but not limited to, equity, futures, derivatives and debt securities to achieve long-term capital appreciation.

(k) This class includes an investment in a hedge fund which consists of an equity-focused portfolio with sector-specific, market neutral sub-portfolios to achieve long-term appreciation. This hedge fund also employs various complementary equity-focused investment strategies and may also invest in convertible bonds and other credit-based instruments.

(l) This class includes investments in hedge funds that employ an event driven strategy. These funds are credit/debt-focused with the objective of earning superior risk-adjusted returns. These funds seek to exploit situations to invest in securities and financial instruments, mergers and acquisitions (or "risk") arbitrage situations and convertible arbitrage situations, both in the U.S. and globally.

(m) This category includes investments in both equity funds and a fixed income fund. The funds can provide inflation protections potential, added diversifications outside of equities and fixed income investments, and finally, additional sources of absolute return and income. During periods of stock market performance, the funds will probably underperform. Additionally, macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.

(n) This class includes commingled funds which invest in multi-family, industrial, retail and commercial real estate located in the U.S. with the objective of seeking attractive returns, primarily through income and to a less extent capital appreciation, while limiting downside risk. The funds have both relative and real return objectives.

(o) This class includes investments in real estate funds, private real estate partnerships and other structured investment vehicles that own real estate and related assets. This asset class provides diversification across geographies, managers and investment strategies. Portions of this class invest in private real estate funds focused on high-quality office, retail, multi-family and industrial real estate located in the largest U.S. markets. The investment objective of this class is income and capital appreciation. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 2 to 10 years.

(p) This class includes investments in private equity funds with a focus on early through late stage U.S. companies with high potential growth, primarily in technology and healthcare related industries. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 1 to 14 years.

(q) This class includes investments in a private equity fund which focuses on global investments including stressed and distressed opportunities as well as early-stage to later-stage companies with investments across geographies, industries and asset classes. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next 1 to 15 years.

As of December 31, 2018 and 2017, investments of $893,000,000 and $885,000,000, respectively, are held by the AARP Insurance Plan for the payment of member insurance premiums (Note 6).

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, as of December 31 were comprised of the following (in thousands):

	2018	2017
Royalties	$ 71,503	$ 69,235
Program fees	1,627	2,095
Publication advertising	14,223	13,399
Grants	9,014	11,154
Other	8,408	7,110
Accounts receivable, gross	104,775	102,993
Less: Allowance for doubtful accounts	(955)	(357)
Accounts receivable, net	$ 103,820	$ 102,636

The carrying value of accounts receivable is reduced by an appropriate allowance, if needed, for uncollectible accounts. AARP determines its allowance by considering a number of factors, including the length of time receivables are past due, previous loss history, the customer or donor's current ability to pay their obligation, and the condition of the general economy and the industry as a whole. Receivables outstanding longer than the payment terms are considered past due. AARP writes off accounts receivables when they become uncollectible, with any payments subsequently received on such receivables recorded as income in the period received. The allowance for doubtful accounts as of the years ended December 31, 2018 and 2017, respectively, related solely to outstanding publication advertising receivables. This allowance is based on a periodic review of customers' balances, including an evaluation of payment history, recent payment trends and an assessment of customer's creditworthiness.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of December 31 was comprised of the following (in thousands):

	2018	2017
Land	$ 53,023	$ 53,023
Buildings and improvements	348,417	323,363
Furniture and equipment	102,074	101,967
Computer software	264,788	222,583
Leasehold improvements	13,605	12,739
	781,907	713,675
Less: Accumulated depreciation and amortization	(400,214)	(381,390)
Property and equipment, net	$ 381,693	$ 332,285

10. NOTES PAYABLE

The carrying amounts of notes payable and other long-term debt as of December 31, were as follows (in thousands):

	2018	2017
Fixed rate notes, maturing May 2031, net of discount of $684 in 2018 and $717 in 2017 (a)	$ 124,316	$ 124,283
Variable rate notes, maturing May 2031 (b)	50,000	50,000
District of Columbia Variable Rate Revenue Bonds, maturing October 2034 (c)	25,000	25,000
Total notes payable	$ 199,316	$ 199,283

Interest expense for the years ended December 31, 2018 and 2017 approximated $10,727,000 and $10,142,000, respectively.

(a) Fixed Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured fixed rate notes in the aggregate amount of $125,000,000 for permanent financing of the AARP, Inc. Headquarters Building which bear interest at 7.5%. Interest is payable semi-annually. Based on the borrowing rates currently available to AARP for fixed rate bonds with similar terms and average maturities, the fair value of the $125,000,000 fixed rate debentures is approximately $166,193,000 and $166,489,000 as of December 31, 2018 and 2017, respectively.

(b) Variable Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured variable rate notes in the amount of $75,000,000, for permanent financing of the AARP, Inc. Headquarters Building. The variable rates were 2.50% and 1.73% at December 31, 2018 and 2017, respectively. Interest is payable monthly. On December 1, 2004, AARP made debt repayments of $25,000,000 on the unsecured variable notes.

(c) District of Columbia Variable Rate Revenue Bonds

On October 21, 2004, the Foundation issued 30-year District of Columbia Variable Rate Revenue Bonds, Series 2004 in the amount of $25,000,000 to finance the purchase of office space located within the AARP, Inc. Headquarters Building. The bonds bear interest at a variable rate determined by the Remarketing Agent, based upon market conditions of reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The Foundation may elect at any time to convert to a fixed interest rate. As of December 31, 2018 and 2017, the notes had an interest rate of 1.81% and 1.73%, respectively.

The Foundation has obtained a letter of credit to secure repayment of the bonds. The letter of credit constitutes an irrevocable obligation to pay the bond trustee up to an amount equal to the sum of the principal amount of the bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of the bonds outstanding. There was no outstanding balance on the letter of credit as of December 31, 2018 and 2017. The Foundation’s letter of credit expires October 21, 2020.

Revolving Credit Facility

On July 17, 2009, AARP, Inc. entered into an unsecured revolving credit facility with a maximum principal amount of $50,000,000 from a commercial bank. Borrowings under the credit facility can take the form of a base rate loan, money market loan or a LIBOR rate loan. The base rate loan is charged interest at a commercial floating rate which is the higher of (a) the 30-day LIBOR Rate plus 2.50%, and (b) the Prime Rate, in the case of the Prime Rate, as in effect for such day, such rate to change as and when such Prime Rate changes. The money market loan is charged a rate of interest as offered by the lender from time to time for any single commercial borrowing for such periods as the lender, at its discretion, may make available. The LIBOR rate loan is charged interest at a floating LIBOR rate plus 45 basis points. The credit facility expires on July 15, 2019 and is expected to be renewed. In 2018, there were two borrowings from the credit facility, which were fully repaid by December 31, 2018. There were no borrowings against the credit facility in 2017.

Board Designated Sinking Fund

In 2001, the AARP, Inc. Board of Directors authorized the creation and funding of a Sinking Fund for the purpose of repayment of outstanding notes payable (Note 16). In order to ensure that the Sinking Fund can repay the notes payable, the AARP, Inc. Board of Directors has approved annual increases to the Sinking Fund so that it will be fully funded by 2031. The balance in the Sinking Fund as of December 31, 2018 and 2017 totaled $148,600,000 and $144,300,000, respectively, the related assets of which were included within investments in the accompanying consolidated statements of financial position.

11. INCOME TAXES

The significant components of the provision for income taxes were as follows for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Current:		
Federal income (benefit) tax	$ (769)	$ 7,729
State income tax	110	2,114
Current income tax expense	(659)	9,843
Deferred:		
Federal income tax	1,159	6,873
State income tax (benefit)	590	(818)
Deferred income tax expense	1,749	6,055
Total income tax expense	$ 1,090	$ 15,898

The significant components of the net deferred tax asset, which is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position at December 31, 2018 and 2017, were as follows (in thousands):

	2018	2017
Deferred income tax assets:		
Employee benefits	$ 3,426	$ 3,217
Accrued expenses	2,367	2,321
Deferred revenue	5,777	6,728
Start-up expenses	159	-
Capital loss carryforward	34	-
Total deferred income tax assets	11,763	12,266
Deferred income tax liability:		
Depreciation	(270)	4
Property tax expense	(14)	(14)
Total deferred income tax liability	(284)	(10)
Net deferred income tax asset	$ 11,479	$ 12,256

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2018 and 2017 totaled $4,455,000 and $7,474,000, respectively, and consisted entirely of estimated federal and state income tax payments.

12. DEFINED BENEFIT PENSION PLAN

Eligible employees of AARP participate in a noncontributory defined benefit pension plan known as the AARP Employees' Pension Plan (the "Pension Plan"). The Pension Plan covers all employees meeting eligibility service requirements. AARP's funding policy is to contribute an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as actuarially determined, calculated on a level percentage of payroll costs basis, but not greater than the maximum tax deductible limit. Pension Plan assets are invested principally in equity and fixed income securities managed by outside fund managers.

In 2018 and 2017, discretionary employer contributions to the Pension Plan totaled $46,150,000 and $36,100,000, respectively. AARP was not required to make annual minimum contributions in 2018 or 2017. AARP plans to make a discretionary contribution of $45,000,000 to the Pension Plan in 2019.

The components of net periodic pension benefit cost for the years ended December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Service cost	$ 42,814	$ 36,161
Interest cost	47,212	46,432
Expected return on plan assets	(61,881)	(56,247)
Amortization of actuarial loss	27,355	19,953
	$ 55,500	$ 46,299

The following sets forth the funded status of the Pension Plan and accrued pension liability included in the accompanying consolidated statements of financial position at December 31 (in thousands):

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year:	$ (1,214,617)	$ (1,048,544)
Service cost	(42,814)	(36,161)
Interest cost	(47,212)	(46,432)
Actuarial gain (loss)	113,001	(108,468)
Benefits paid	27,060	24,988
Benefit obligation at end of year	(1,164,582)	(1,214,617)
Change in plan assets:		
Fair value at beginning of year:	961,915	813,225
Actual (loss) return on plan assets	(66,345)	137,578
Contribution to the plan	46,150	36,100
Benefits paid	(27,060)	(24,988)
Fair value at end of year	914,660	961,915
Accrued pension liability	$ (249,922)	$ (252,702)

At December 31, 2018 and 2017, the accumulated benefit obligation totaled $1,052,236,000 and $1,091,540,000, respectively.

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2018 and 2017 measurement dates are as follows:

	2018	2017
Discount rate	4.35 %	3.76 %
Future salary increases	4.00 %	4.00 %

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2018 and 2017 measurement dates were as follows:

	2018	2017
Discount rate	3.76 %	4.30 %
Expected long-term rate of return on plan assets	7.50 %	7.50 %
Future salary increases	4.00 %	4.00 %

The following benefit payments, which reflect expected future service, are expected to be paid (in thousands):

2019	$ 32,525
2020	35,599
2021	38,951
2022	42,263
2023	45,543
Years 2024-2028	280,327

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2018 and 2017 (in thousands):

	2018	2017
Net actuarial loss	$ 228,647	$ 240,776

Estimated amount to be amortized into net periodic benefit cost in 2019 is $14,571,000 from net actuarial loss.

In order to determine an appropriate return on plan assets, AARP considers its current asset allocation along with historical and expected returns that can be achieved with the various asset types in the Pension Plan. Management believes that the current asset allocation justifies an expected long-term rate of return on plan assets of 7.25%.

The weighted average asset allocation for plan assets is as follows at December 31, 2018 and 2017:

	2018	2017
Asset categories:		
Equity securities	58 %	62 %
Debt securities	36	31
Alternatives	5	5
Cash equivalents	1	2
	100 %	100 %

The targeted allocation of the investment assets in the Pension Plan is for equities to comprise 60% of the investment portfolio, debt securities to comprise 35%, and alternatives to comprise the remaining 5%. These targets are not intended to serve as a rigid constraint on the investment allocation.

The following sets forth the minimum and maximum positions for the various asset classes in the Pension Plan:

	Minimum	Target	Maximum
Asset class:			
Equity securities	50 %	60 %	70 %
Debt securities	30 %	35 %	40 %
Alternatives	0 %	5 %	10 %
Cash equivalents	0 %	0 %	2 %

As of December 31, 2018 and 2017, the fair value of AARP's Pension Plan assets, by asset category within the fair value hierarchy consisted of the following (in thousands):

	2018 Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
U.S. large-mid cap	$ 225,037	$ 88,606	$ -	$ 136,431
U.S. small cap	54,440	54,440	-	-
Global and international	217,165	188,066	-	29,099
Emerging markets	31,552	-	-	31,552
Fixed income securities and funds:				
Global and international	104,020	52,555	516	50,949
Mortgage and asset-backed	45,553	-	553	45,000
U.S. corporate and investment grade	85,761	59,393	155	26,213
Emerging markets	16,056	12,473	-	3,583
U.S. government and treasury securities	15,518	-	-	15,518
Real return	407	-	-	407
Short-term	13,393	-	-	13,393
High-yield	15,261	11,318	-	3,943
Municipal	1,302	-	-	1,302
Commingled real asset funds	45,173	-	-	45,173
Balanced fund	33,377	-	-	33,377
Total	904,015	$ 466,851	$ 1,224	$ 435,940
Cash and cash equivalents	10,645			
Total investments	$ 914,660			

	2017 Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
U.S. large-mid cap	$ 237,085	$ 91,341	$ -	$ 145,744
U.S. small cap	62,958	62,958	-	-
Global and international	244,575	214,885	-	29,690
Emerging markets	42,712	-	-	42,712
Fixed income securities and funds:				
Global and international	105,736	53,671	698	51,367
Mortgage and asset-backed	31,354	-	225	31,129
U.S. corporate and investment grade	76,522	59,882	302	16,338
Emerging markets	17,212	13,663	-	3,549
U.S. government and treasury securities	27,854	-	-	27,854
Real return	417	-	-	417
Short-term	23,965	-	-	23,965
High-yield	15,855	11,872	-	3,983
Municipal	1,278	-	-	1,278
Commingled real asset funds	48,719	-	-	48,719
Balanced fund	15,039	-	-	15,039
Total	951,281	$ 508,272	$ 1,225	$ 441,784
Cash and cash equivalents	10,634			
Total investments	$ 961,915			

The fair values of the institutional mutual funds have been estimated using the net asset value per share of the investment. Information with respect to redemptions, strategies, risks and funding commitments for these investments as of December 31, 2018 and 2017 was as follows (in thousands):

	2018 Fair Value	2017 Fair Value	Redemption Frequency	Redemption Notice Period
Equity securities and funds:				
U.S. large-mid cap [(a)]	$ 136,431	$ 145,744	daily	2 days
Global and international fund [(b)]	29,099	29,690	3 times per month	2 days
Emerging markets funds [(c)]	31,552	42,712	daily or semi-monthly	1 or 2 days
Fixed income securities and funds:				
Various sector funds [(d)]	113,038	112,558	daily	none
Global and international fund [(e)]	47,270	47,322	monthly	15 days
Balanced fund [(f)]	33,377	15,039	daily	none
Commingled real asset funds [(g)]	45,173	48,719	daily	2 days
	$ 435,940	$ 441,784		

[(a)] This category is comprised of one institutional mutual fund that employs a passive investment strategy seeking to replicate the performance of a large-cap benchmark.

[(b)] This category is comprised of three institutional mutual funds. These funds allow for a passive investment strategy seeking to replicate the performance of a global developed market index.

[(c)] This category is comprised of two institutional mutual funds. One fund is actively managed and seeks to provide returns in excess of a well-established international market index. The other fund is passively managed. Its benchmark is the same as the active fund.

[(d)] This category is invested with one fund manager who employs different sector funds to obtain the highest performance possible. This fund manager is given wide latitude under mutually agreed-upon investment guidelines to rotate in and out of sectors, such as mortgages, municipalities, high-yield, etc.

[(e)] This category is comprised of one actively managed fund. The fund seeks to provide returns in excess of a well-established international, fixed income index.

[(f)] This category is comprised of a passively managed fund. The fund tracks an index, based upon the results from pension plans similar in size and asset exposure to AARP's Pension Plan. The objective of the fund manager is to meet the expected return of the index.

[(g)] This category is comprised of equity funds and a fixed income fund. These funds can provide inflation protections potential, added diversifications outside of equities and fixed income investments, and finally, additional sources of absolute return and income. During periods of stock market performance, the funds will probably underperform. Additionally, macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.

The Pension Plan did not have any unfunded commitments related to its investments as of December 31, 2018 and 2017.

13. POSTRETIREMENT HEALTH BENEFITS

All employees of AARP and its affiliates may become eligible for continuing health care benefits after retirement if they meet minimum age and service requirements and are covered by an AARP employee health insurance plan at the date of retirement. Healthcare benefits are provided through the AARP Employees' Welfare Plan (the "Welfare Plan").

The components of net periodic postretirement health benefit cost for the years ended December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Service cost	$ 7,597	$ 4,116
Interest cost	6,920	5,571
Amortization of prior service credit	(654)	(654)
Amortization of actuarial gain	3,065	47
	$ 16,928	$ 9,080

The following sets forth the changes in benefit obligations, changes in plan assets, and the composition of accrued postretirement benefit cost shown in the accompanying consolidated statements of financial position at December 31 (in thousands):

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year:	$ (174,975)	$ (124,590)
Service cost	(7,597)	(4,116)
Interest cost	(6,920)	(5,570)
Actuarial gain (loss)	17,103	(44,175)
Participant contributions	(697)	(692)
Benefits paid, net subsidy	3,723	4,168
Benefit obligation at end of year	(169,363)	(174,975)
Change in plan assets:		
Fair value at beginning of year:	-	-
Employer contribution	3,026	3,476
Plan participants’ contributions	697	692
Benefits paid	(3,723)	(4,168)
Fair value at end of year	-	-
Accrued postretirement health benefits	$ (169,363)	$ (174,975)

As of December 31, 2018 and 2017, the weighted average discount rates used in the actuarial valuation were as follows:

	2018	2017
End of year benefit obligation	4.32 %	3.75 %
Net periodic benefit cost	3.75 %	4.31 %

For measurement purposes, the health care cost trend rate was 6.00% for 2018 and 6.25% for 2017 (the rate is assumed to decrease gradually to 5% in 2022 and remain level thereafter).

The following benefit payments are expected to be paid (in thousands):

2019	$ 5,250
2020	5,784
2021	6,428
2022	7,132
2023	7,716
Years 2024 - 2027	49,714

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Net actuarial loss	$ 35,012	$ 55,180
Prior service credit	(66)	(720)
	$ 34,946	$ 54,460

Estimated amount to be amortized into net periodic benefit cost in 2019 is $65,837 from prior service credit.

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. A 1% change in the assumed healthcare cost trend rate at December 31, 2018 would have resulted in a $40,772,000 increase or a $29,240,000 decrease in the accumulated postretirement benefit obligation, and a $4,749,000 increase or a $3,259,000 decrease in the 2018 aggregate service and interest cost.

A 1% change in the assumed healthcare cost trend rate at December 31, 2017 would have resulted in a $44,362,000 increase or a $32,014,000 decrease in the accumulated postretirement benefit obligation, and a $385,000 increase or a $733,000 decrease in the 2017 aggregate service and interest cost.

14. EMPLOYEE HEALTH CARE BENEFITS

AARP operates under a "pay as you go" model for employee health benefits, with obligations funded from general corporate assets. For the years ended December 31, 2018 and 2017, expenses for the AARP Welfare Plan for current health care benefits totaled $23,813,000 and $24,147,000, respectively. As of December 31, 2018 and 2017, AARP had a liability related to these benefits of $2,908,000 and $3,107,000, respectively, which was included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

15. DEFINED CONTRIBUTION PLAN

Effective January 1, 1998, AARP and certain affiliates participate in a single-employer defined contribution plan through the AARP Employees' 401(k) Plan. To participate in the 401(k) Plan, an employee must be at least 18 years of age and have been employed for a minimum of one month of continuous service.

AARP provides an employer contribution to the 401(k) Plan, which matches 100% of employee contributions up to 3% of employee compensation, and 50% of employee contributions for the next 2% of employee compensation, up to the maximum limit allowed by law. For the years ended December 31, 2018 and 2017, AARP employer contributions to this plan totaled $11,725,000 and $11,115,000, respectively.

16. BOARD DESIGNATED NET ASSETS

Net assets without donor restrictions that have been designated by AARP's Board of Directors at December 31, 2018 and 2017 were available to fund the following (in thousands):

	2018	2017
Debt retirement sinking fund (Note 10)	$ 148,600	$ 144,300
Foundation operating funds	365,053	299,844
LCE operating funds	4,724	5,068
Board designated net assets	$ 518,377	$ 449,212

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments

AARP leases offices, information centers, and warehouse facilities in 96 locations in the U.S. and its territories under operating leases with various lease terms. Total rent expense incurred under operating leases totaled $26,952,000 and $26,124,000 in 2018 and 2017, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2018 were (in thousands):

2019	$ 17,889
2020	16,907
2021	15,900
2022	9,506
2023	6,550
Thereafter	13,183
Total	$ 79,935

Contingencies

The Foundation and LCE receive a majority of their revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the respective governmental agencies or their designees. Liabilities, if any, arising from such regulatory audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a material adverse effect on the financial position, changes in net assets or cash flow of the Foundation or LCE.

In the normal course of business, AARP is subject to various claims and lawsuits. Certain lawsuits may be covered, in full or in part, by external insurance coverage. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the accompanying consolidated financial statements.

18. SUBSEQUENT EVENTS

AARP evaluated its December 31, 2018 consolidated financial statements for subsequent events through March 20, 2019, the date the consolidated financial statements were available to be issued. AARP is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.